

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-------------------------|--|------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Village of Benzonia | County Benzie |
| Fiscal Year End 2/28/06 | Opinion Date 5/23/06 | Date Audit Report Submitted to State 9/5/06 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES


NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input checked="" type="checkbox"/> | Yellow Book Report | |
| Certified Public Accountant (Firm Name) J L Stephan Co, PC | | Telephone Number 231-941-7600 | |
| Street Address 862 E. Eighth St. | | City Traverse City | State MI |
| Zip 49686 | | | |
| Authorizing CPA Signature  | Printed Name Jerry L. Stephan | License Number 1101010359 | |

Village of Benzonia
Benzie County, Michigan

Audited Financial Statements

For the Year Ended February 28, 2006

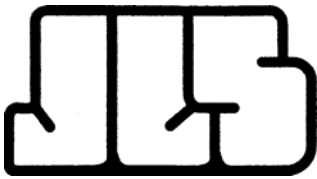
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FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA
David Skibowski, Jr., CPA
Christopher H. Cornell, CPA

INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Benzonia
Benzonia, MI 49616

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of the Village of Benzonia as of and for the year ended February 28, 2006 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities and each major fund of the Village as of February 28, 2006 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2006, on our consideration of the Village of Benzonia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information on pages 26-28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

J. L. Stephan Co. P.C.

May 23, 2006

Village of Benzonia*Exhibit A*

*Government Wide
Statement of Net Assets
February 28, 2006*

| | <i>Governmental Activities</i> | <i>Business Type Activities</i> | <i>Total</i> |
|--|------------------------------------|---|-------------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 411,765 | \$ 122,688 | \$ 534,453 |
| Investments | - | - | - |
| Receivables | 43,925 | 19,846 | 63,771 |
| Due from Other Funds | 44,024 | - | 44,024 |
| Capital Assets | 247,526 | 824,591 | 1,072,117 |
| <i>Total Assets</i> | <u>747,240</u> | <u>967,125</u> | <u>1,714,365</u> |
| Liabilities | | | |
| Accounts Payable | 2,000 | - | 2,000 |
| Accrued and Other Liabilities | - | - | - |
| Due to Other Funds | 3,045 | 39,479 | 42,524 |
| Deferred Revenue | 26,882 | - | 26,882 |
| Non-Current Liabilities | | | |
| Due within one year | - | 16,000 | 16,000 |
| Due within more than on year | - | 649,000 | 649,000 |
| <i>Total Liabilities</i> | <u>31,927</u> | <u>704,479</u> | <u>736,406</u> |
| Net Assets | | | |
| Invested in Capital Assets - net of related debt | 247,526 | 557,735 | 805,261 |
| Restricted | | | |
| Debt Service | - | 104,680 | 104,680 |
| Unrestricted | 467,787 | (399,769) | 68,018 |
| <i>Total Net Assets</i> | <u>\$ 715,313</u> | <u>\$ 262,646</u> | <u>\$ 977,959</u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia
Government Wide
Statement of Activities
For the Year Ended February 28, 2006

Exhibit B

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|-------------------|-------------------------|--|--|--|-----------------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-Type Activities | |
| <i>Primary Government</i> | | | | | | | |
| General Government | \$ 89,316 | \$ 1,942 | \$ - | \$ - | \$ (87,374) | | \$ (87,374) |
| Public Safety | - | - | - | - | - | | - |
| Public Works | 78,925 | 23,288 | 63,286 | - | 7,649 | | 7,649 |
| Health and Welfare | - | - | - | - | - | | - |
| Community and Economic Development | - | 490 | - | - | 490 | | 490 |
| Recreation and Culture | 18,048 | - | - | - | (18,048) | | (18,048) |
| Internal Service Fund | 41,276 | 5,213 | - | - | (36,063) | | (36,063) |
| <i>Total Governmental Activities</i> | <u>227,565</u> | <u>30,933</u> | <u>63,286</u> | <u>-</u> | <u>(133,346)</u> | | <u>(133,346)</u> |
| <i>Business-Type Activities</i> | | | | | | | |
| Water System | 125,923 | 69,000 | 14,980 | - | - | (41,943) | (41,943) |
| <i>Total Primary Government</i> | <u>\$ 353,488</u> | <u>\$ 99,933</u> | <u>\$ 78,266</u> | <u>\$ -</u> | <u>(133,346)</u> | <u>(41,943)</u> | <u>(175,289)</u> |
| <i>General Revenues</i> | | | | | | | |
| | | | | | 127,668 | 29,514 | 157,182 |
| Property Taxes | | | | | 43,208 | - | 43,208 |
| State Shared Revenues | | | | | 11,171 | 701 | 11,872 |
| Interest | | | | | 551 | 1,094 | 1,645 |
| Refunds | | | | | - | 12,150 | 12,150 |
| Rents | | | | | - | - | - |
| Miscellaneous/Donations | | | | | 3,001 | - | 3,001 |
| Disposal/Sale of Assets | | | | | - | - | - |
| Net Transfers In/(Out) | | | | | - | - | - |
| <i>Total General Revenues and Transfers</i> | | | | | <u>185,599</u> | <u>43,459</u> | <u>229,058</u> |
| <i>Change in Net Assets</i> | | | | | 52,253 | 1,516 | 53,769 |
| Net Assets - Beginning | | | | | 663,060 | 261,130 | 924,190 |
| Net Assets - Ending | | | | | <u>\$ 715,313</u> | <u>\$ 262,646</u> | <u>\$ 977,959</u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia

Governmental Funds

Balance Sheet

February 28, 2006

Exhibit C

| | <i>General</i> | <i>Major Streets</i> | <i>Local Streets</i> | <i>Total</i> |
|----------------------------|-------------------|--------------------------|--------------------------|----------------|
| Assets | | | | |
| Cash - Unrestricted | \$ 60,997 | \$ 42,981 | \$ 166,887 | \$ 270,865 |
| Taxes & Fees Receivable | 17,843 | - | 9,039 | 26,882 |
| Due from State | 7,287 | 5,873 | 3,883 | 17,043 |
| Due from Other Funds | 41,039 | 1,791 | 1,194 | 44,024 |
| <i>Total Assets</i> | <u>127,166</u> | <u>50,645</u> | <u>181,003</u> | <u>358,814</u> |
| Liabilities | | | | |
| Due to Other Funds | 2,985 | - | - | 2,985 |
| Deferred Revenue | 17,843 | - | 9,039 | 26,882 |
| <i>Total Liabilities</i> | <u>20,828</u> | <u>-</u> | <u>9,039</u> | <u>29,867</u> |
| Fund Balances | | | | |
| Fund Balances - Unreserved | <u>106,338</u> | <u>50,645</u> | <u>171,964</u> | <u>328,947</u> |
| <i>Total Fund Balances</i> | <u>\$ 106,338</u> | <u>\$ 50,645</u> | <u>\$ 171,964</u> | <u>328,947</u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia
*Reconciliation of the Balance Sheet
to the Statement of Net Assets
February 28, 2006*

Exhibit D

| | |
|---|------------|
| Fund Balance - Total Governmental Funds (Exhibit C) | \$ 328,947 |
|---|------------|

*Amounts reported for governmental activities in the statement of net assets
are different because:*

| | |
|--|---------|
| General Governmental Capital Assets of \$310,239 net of accumulated depreciation of (\$103,398) are not financial resources and not reported in the funds. | 206,841 |
|--|---------|

| | |
|---|----------------|
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets | <u>179,525</u> |
|---|----------------|

| | |
|---------------------------------------|--------------------------|
| Net Assets of Governmental Activities | <u><u>\$ 715,313</u></u> |
|---------------------------------------|--------------------------|

Village of Benzonia
Governmental Fund
Statement of Revenue, Expenditures
and Changes on Fund Balance
For the Year Ended February 28, 2006

Exhibit E

| | <i>General Fund</i> | <i>Major Streets Fund</i> | <i>Local Streets Fund</i> | <i>Total Governmental Funds</i> |
|--|--------------------------|-------------------------------|-------------------------------|---|
| <i>Revenues</i> | | | | |
| Property Taxes | \$ 84,819 | \$ - | \$ 42,849 | \$ 127,668 |
| Licenses & Permits | 2,432 | - | - | 2,432 |
| State Grants | 43,208 | 37,546 | 25,740 | 106,494 |
| Charges for Services | 23,288 | - | - | 23,288 |
| Interest Earned | 1,083 | 1,785 | 3,716 | 6,584 |
| Rentals | - | - | - | - |
| Refunds | 382 | 73 | 73 | 528 |
| Donations | - | - | - | - |
| Miscellaneous Income | - | - | - | - |
| <i>Total Revenues</i> | <u>155,212</u> | <u>39,404</u> | <u>72,378</u> | <u>266,994</u> |
| <i>Expenditures</i> | | | | |
| General Government | 97,806 | - | - | 97,806 |
| Public Safety | - | - | - | - |
| Public Works | 39,004 | 85,656 | 30,732 | 155,392 |
| Health and Welfare | - | - | - | - |
| Community and Economic Dev. | - | - | - | - |
| Recreation and Culture | 15,115 | - | - | 15,115 |
| Other Functions | - | - | - | - |
| Debt Service | - | - | - | - |
| <i>Total Expenditures</i> | <u>151,925</u> | <u>85,656</u> | <u>30,732</u> | <u>268,313</u> |
| <i>Excess Revenues Over (Under) Expenditures</i> | <u>3,287</u> | <u>(46,252)</u> | <u>41,646</u> | <u>(1,319)</u> |
| <i>Other Financing Sources (Uses)</i> | | | | |
| Operating Transfers In | - | 10,000 | - | 10,000 |
| Operating Transfers (Out) | - | - | (10,000) | (10,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>-</u> | <u>10,000</u> | <u>(10,000)</u> | <u>-</u> |
| <i>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</i> | <u>3,287</u> | <u>(36,252)</u> | <u>31,646</u> | <u>(1,319)</u> |
| Fund Balance - Beginning | <u>103,051</u> | <u>86,897</u> | <u>140,318</u> | <u>330,266</u> |
| Fund Balance - Ending | <u><u>\$ 106,338</u></u> | <u><u>\$ 50,645</u></u> | <u><u>\$ 171,964</u></u> | <u><u>\$ 328,947</u></u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia

Exhibit F

*Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended February 28, 2006*

| | |
|---|------------|
| Change in Fund Balance - Total Governmental Funds (Exhibit E) | \$ (1,319) |
|---|------------|

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

| | |
|--|--------|
| Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$9,168) is exceeded by capital outlay (\$54,177) in the current period. | 45,009 |
|--|--------|

| | |
|---|-------|
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) is reported with governmental activities | 8,563 |
|---|-------|

| | |
|--|-------------------------|
| <i>Change in net assets of governmental activities (Exhibit B)</i> | <u><u>\$ 52,253</u></u> |
|--|-------------------------|

Village of Benzonia*Exhibit G*

*Proprietary Fund
Statement of Net Assets
February 28, 2006*

| | <i>Enterprise</i> | <i>Internal Service</i> |
|--|-------------------|-----------------------------|
| Assets | | |
| <i>Current Assets</i> | | |
| Cash-Unrestricted | \$ 24,011 | \$ 140,900 |
| Accounts Receivable | 13,843 | - |
| Due from Other Funds | - | - |
| | <hr/> | <hr/> |
| <i>Total Current Assets</i> | 37,854 | 140,900 |
| <i>Restricted Assets</i> | | |
| Taxes Receivable | 6,003 | - |
| Cash - Retirement/Redemption | 16,353 | - |
| Cash - Bond Reserve | 55,299 | - |
| Cash - Replacement Funds | 26,110 | - |
| Cash - Construction | 915 | - |
| | <hr/> | <hr/> |
| <i>Total Restricted Assets</i> | 104,680 | - |
| <i>Capital Assets</i> | | |
| Property, Plant & Equipment | 1,222,735 | 283,704 |
| Less: Accumulated Depreciation | (398,144) | (243,019) |
| | <hr/> | <hr/> |
| <i>Total Fixed Assets</i> | 824,591 | 40,685 |
| | <hr/> | <hr/> |
| <i>Total Assets</i> | 967,125 | 181,585 |
| | <hr/> | <hr/> |
| Liabilities | | |
| Accounts Payable | - | 2,000 |
| Bonds Payable | 665,000 | - |
| Due to Other Funds | 39,479 | 60 |
| | <hr/> | <hr/> |
| <i>Total Liabilities</i> | 704,479 | 2,060 |
| | <hr/> | <hr/> |
| Net Assets | | |
| Invested in Capital Assets - net of debt | 557,735 | 283,704 |
| Restricted for Debt Service | 104,680 | - |
| Unrestricted | (399,769) | (104,179) |
| | <hr/> | <hr/> |
| <i>Total Net Assets</i> | <u>\$ 262,646</u> | <u>\$ 179,525</u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia
Proprietary Fund
Statement of Revenue, Expenses
and Changes in Net Assets
For the Year Ended February 28, 2006

Exhibit H

| | <i>Enterprise</i> | <i>Internal Service</i> |
|--|-------------------|-----------------------------|
| <i>Operating Revenues</i> | | |
| Charges for Services | \$ 69,000 | \$ 42,228 |
| Miscellaneous | - | - |
| <i>Total Operating Revenues</i> | 69,000 | 42,228 |
| <i>Operating Expenses</i> | | |
| Pump Station | 18,132 | - |
| Administration | 30,085 | - |
| Distribution | 12,165 | - |
| Customer Service | 1,289 | - |
| Water Tower | 2,950 | - |
| Equipment Operations | - | 24,218 |
| Construction Expenses | - | - |
| Depreciation | 30,247 | 17,058 |
| <i>Total Operating Expenses</i> | 94,868 | 41,276 |
| <i>Operating Income (Loss)</i> | (25,868) | 952 |
| <i>Non-Operating Revenues (Expenses)</i> | | |
| Property Taxes | 29,514 | - |
| Tower Rent | 12,150 | - |
| State Grant | 14,980 | - |
| Interest Earned | 701 | 4,587 |
| Gain on Sale of Assets | - | 3,001 |
| Refunds | 1,094 | 23 |
| Interest Expense | (31,055) | - |
| | 27,384 | 7,611 |
| <i>Net Income (Loss)</i> | 1,516 | 8,563 |
| Retained Earnings - Beginning of Year | 261,130 | 170,962 |
| <i>Retained Earnings - End of Year</i> | <u>\$ 262,646</u> | <u>\$ 179,525</u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia
Proprietary Fund
Statement of Cash Flows
For the Year Ended February 28, 2006

Exhibit I

| | <i>Enterprise</i> | <i>Internal Service</i> |
|--|--------------------------|-----------------------------|
| Cash Flows from Operating Activities | | |
| Operating Income (Loss) | \$ (25,868) | \$ 952 |
| <i>Adjustments to reconcile operating income to net cash provided by operating activities:</i> | | |
| Depreciation | 30,247 | 17,058 |
| Net Transfers | - | - |
| <i>(Increase) Decrease in Current Assets</i> | | |
| Accounts Receivable | (2,170) | - |
| Due from Other Funds | 145 | 55 |
| Inventory | - | - |
| <i>Increase (Decrease) in Current Liabilities</i> | | |
| Accounts Payable | - | 2,000 |
| Net Cash Flows From Operating Activities | <u>2,354</u> | <u>20,065</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds of Sale of Fixed Assets | - | 3,001 |
| Acquisition of Capital Assets | (19,734) | - |
| Tower Rent Received | 12,150 | - |
| State Grant | 14,980 | - |
| Refunds | 1,094 | 23 |
| Payment of Bonds Payable | (16,000) | - |
| Payment of Bond Interest | (31,055) | - |
| Property Taxes | 29,514 | - |
| Net Cash Flows From Capital and Related Financing Activities | <u>(9,051)</u> | <u>3,024</u> |
| Cash Flows from Investing Activities | | |
| Interest Income Received | 701 | 4,587 |
| Net Cash Flows From Investing Activities | <u>701</u> | <u>4,587</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(5,996)</u> | <u>27,676</u> |
| Cash and Cash Equivalents at Beginning of Year | <u>128,684</u> | <u>113,164</u> |
| End of Year | <u><u>\$ 122,688</u></u> | <u><u>\$ 140,840</u></u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia*Exhibit J**Fiduciary Fund
Statement of Net Assets
February 28, 2006*

| | <i>Trust & Agency</i> | <i>Tax Collection</i> |
|--------------------------|-------------------------------|---------------------------|
| Assets | | |
| Cash | \$ 2,594 | \$ 1,000 |
| Due From Other Funds | - | - |
| | | |
| <i>Total Assets</i> | <u>\$ 2,594</u> | <u>\$ 1,000</u> |
| | | |
| Liabilities | | |
| Due to Other Funds | \$ 500 | \$ 1,000 |
| Due to State | 435 | |
| Due to Others | 1,659 | - |
| | | |
| <i>Total Liabilities</i> | <u>\$ 2,594</u> | <u>\$ 1,000</u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia
Fiduciary Fund
Statement of Changes in Net Assets
For the Year Ended February 28, 2006

Exhibit K

| | <u><i>Trust & Agency</i></u> |
|---------------------------------|--------------------------------------|
| <i>Additions</i> | |
| Tax Collection | \$ 1,260 |
| State Withholding Taxes | 2,516 |
| Metro Act | 2,667 |
| Workers Comp Refund | 407 |
| Contributions | <u>1,000</u> |
| <i>Total Contributions</i> | 7,850 |
| Interest Income | <u>-</u> |
| <i>Total Additions</i> | <u>7,850</u> |
| <i>Deductions</i> | |
| Tax Disbursements | 1,260 |
| State Withholding Disbursements | 2,501 |
| Metro Act | 2,667 |
| Workers Comp Refund | <u>1,135</u> |
| <i>Total Deductions</i> | <u>7,563</u> |
| <i>Change in Net Assets</i> | 287 |
| Net Assets - Beginning of Year | <u>2,307</u> |
| Net Assets - End of Year | <u><u>\$ 2,594</u></u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Benzonia have been prepared in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

A. Reporting Entity

The Village of Benzonia was incorporated in 1891 as a general law Village. It operates under an elected President-Council form of government. The Village population as of the 2000 census was 519 and the current state taxable value is \$14,883,374.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the Village.

Benzonia Public Library - The Benzonia Public Library is located in the Village and serves the general public. The Library Board members are not appointed by, controlled by, or financially accountable to the Village Council. Library operations and management functions are totally separate from the Village and the Library currently has a separate audit of its financial statements.

Based on these facts, the Village does not consider the Library part of its reporting entity. Accordingly the financial activity of the Benzonia Public Library has not been included in these financial statements.

B. Government –Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village collects property taxes between July 1 and September 1. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The County pays the Village for uncollected taxes from the proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. Delinquent real property taxes receivable are offset by deferred revenue for all Governmental Fund Types on the Village's balance sheet, as these amounts are not normally received within sixty days of year end, and are therefore not available to finance current operations. Additionally, state-share revenues associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period.

The local unit reports the following major governmental funds:

General Fund - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, and other intergovernmental revenues.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The major Special Revenue Funds maintained by the Village are the Major and Local Street Funds.

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The local unit reports the following major proprietary fund:

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Water Fund is operated with the intention that the cost of providing water services to the public will be financed or recovered primarily through charges to users.

Additionally, the government reports the following fund types:

Internal Service Fund - Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments on a cost-reimbursement basis. The Village operates a Motor Vehicle Equipment Pool Fund.

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The Tax Collection Fund and Trust and Agency Funds belong to this Fund Group.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tap fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Accounts Receivable - Accounts Receivable are recorded in the Water Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer. The County purchases any amounts not collected by the Village.

Restricted Assets – The revenue bonds of the enterprise fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and bond reserve. These amounts have been classified as restricted assets.

Capital Assets – Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Village officials compiled an inventory during 1995. At this time, costs were estimated for a large portion of the assets.

Depreciation has been provided on these fixed assets using the straight line method over their estimated useful lives. A half year of depreciation is taken in the year of acquisition.

- | | |
|---------------------------------|-------------|
| • Office Equipment & Furniture | 5 years |
| • Park Equipment and Structures | 10 years |
| • Roads and Paving | 20 years |
| • Buildings and Improvements | 30 years |
| • Water Fund | 20-50 years |
| • Motor Vehicles & Equipment | 5-10 years |

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Vacation and Sick Leave - The Village has a formal personnel policy including provisions for compensation of unused vacation and sick leave upon termination. The policy is as follows:

Upon leaving Village employment, current full-time employees shall receive compensation for:

1. Unused vacation leave: Regular hourly rate multiplied by the number of days accrued, not to exceed fifteen (15) days.
2. Unused sick leave: One-half the regular hourly rate multiplied by the number of days accrued, not to exceed thirty six (36) days.

A liability for these amounts is reported in governmental funds only for employees terminated at year-end. The unrecorded liability at February 28, 2006 was approximately \$6,616.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The General fund and Special Revenue Fund types are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis and used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the Village.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the activity level as the budget was adopted.

Encumbrance accounting is not used and appropriations normally lapse at year- end.

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

B. Material Violations of Legal & Contractual Provisions

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. For the current year, the Village incurred the following expenditures in excess of the amounts appropriated.

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------|---------------|---------------|-----------------|
| General Fund: Sanitation | \$ 31,257 | \$ 33,257 | \$ (2,000) |

The budgetary comparison schedule for the general fund shows minor budget variances arising from rounding. These variances are considered neither material nor a violation of the budgeting act.

The Village has adopted an investment policy that does not contain all information required by Public Act 20 of 1943 as amended.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, and Public Act 196 of 1997 states the Village, by resolution, may authorize the Treasurer to invest surplus funds as follows:

1. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
4. In United States government or federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment vehicles that are legal for direct investment by local units of government in Michigan.

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS - continued

B. Types of Deposits and Investments

The Village maintains all its surplus funds with local banks in the form of savings/checking accounts and certificates of deposit. Interpreting FDIC rules regarding the \$100,000 insurance limit to apply separately to the demand and time deposits of public units, GASB statement 3 risk disclosures for the Village are as follows:

Category 1 Insured or collateralized with securities held by the entity or its agent in the entity's name.

Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in entity's name.

Category 3 Un-collateralized

| | | <u>Category</u> | | |
|---------------|-------------------|-------------------|-------------|-------------------|
| | <u>Balance</u> | <u>1</u> | <u>2</u> | <u>3</u> |
| Cash Deposits | \$ 538,107 | \$ 177,777 | \$ - | \$ 360,330 |
| Cash Equiv. | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 538,107</u> | <u>\$ 177,777</u> | <u>\$ -</u> | <u>\$ 360,330</u> |

At year-end, the Local Unit's cash deposits and cash equivalents were reported in the basic financial statements in the following categories:

| | <u>Amount</u> |
|--------------------------|-------------------|
| Governmental Activities | \$ 411,825 |
| Business Type Activities | 122,688 |
| Fiduciary Funds | <u>3,594</u> |
| Total Deposits | <u>\$ 538,107</u> |

NOTE 4 - SUMMARY OF CAPITAL ASSETS

Capital asset activity or the primary government for the current year is summarized as follows:

Governmental Activities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| <i>Capital Assets Not Being Depreciated</i> | | | | |
| Land | \$ 96,350 | \$ - | \$ - | \$ 96,350 |

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 4 - SUMMARY OF CAPITAL ASSETS - continued

*Capital Assets Being
Depreciated*

| | | | | |
|----------------------------|--------|--------|---|--------|
| Buildings & Improvements | 59,918 | 9,325 | - | 69,243 |
| Office Equip. & Furniture | 17,083 | 1,784 | - | 18,867 |
| Park Equip. and Structures | 58,093 | - | - | 58,093 |
| Roads and Paving | 24,618 | 43,068 | - | 67,686 |

Internal Service Fund-

| | | | | |
|----------------------|----------------|----------|-----------------|----------------|
| Motor Vehicle Equip. | <u>312,971</u> | <u>-</u> | <u>(29,267)</u> | <u>283,704</u> |
|----------------------|----------------|----------|-----------------|----------------|

| | | | | |
|--|----------------|---------------|-----------------|----------------|
| | <u>472,683</u> | <u>54,177</u> | <u>(29,267)</u> | <u>497,593</u> |
|--|----------------|---------------|-----------------|----------------|

Accumulated Depreciation

| | | | | |
|----------------------------|----------|---------|---|----------|
| Buildings & Improvements | (44,165) | (1,792) | - | (45,957) |
| Office Equip. & Furniture | (15,535) | (827) | - | (16,362) |
| Park Equip. and Structures | (33,665) | (4,063) | - | (37,728) |
| Roads and Paving | (865) | (2,789) | - | (3,351) |

Internal Service Fund-

| | | | | |
|----------------------|------------------|-----------------|---------------|------------------|
| Motor Vehicle Equip. | <u>(255,228)</u> | <u>(17,058)</u> | <u>29,267</u> | <u>(243,019)</u> |
|----------------------|------------------|-----------------|---------------|------------------|

| | | | | |
|--|------------------|-----------------|---------------|------------------|
| | <u>(349,458)</u> | <u>(26,226)</u> | <u>29,267</u> | <u>(346,417)</u> |
|--|------------------|-----------------|---------------|------------------|

*Net Capital Assets
being Depreciated*

| | | | | |
|--|----------------|---------------|----------|----------------|
| | <u>123,225</u> | <u>27,951</u> | <u>-</u> | <u>151,176</u> |
|--|----------------|---------------|----------|----------------|

*Total Capital Assets of
Governmental Activities –
Net of Depreciation*

| | | | | |
|--|-------------------|------------------|-------------|-------------------|
| | <u>\$ 219,575</u> | <u>\$ 27,951</u> | <u>\$ -</u> | <u>\$ 247,526</u> |
|--|-------------------|------------------|-------------|-------------------|

Business-Type Activities

| | Beginning Balance | Additions | Deletions | Ending Balance |
|-------------------------------|----------------------|--------------------|-------------|-------------------|
| 1965 Bond Construction | \$ 22,525 | \$ - | \$ - | \$ 22,525 |
| 1975 Water Main Improvements | 138,353 | - | - | 138,353 |
| 1981 Water Tower Construction | 226,188 | - | - | 226,188 |
| 1998 Water Main Improvements | 643,516 | - | - | 643,516 |
| 1999 Water Main Improvements | 107,946 | - | - | 107,946 |
| 2000 Water Main Improvements | 9,000 | - | - | 9,000 |
| Other Additions | <u>55,473</u> | <u>19,734</u> | <u>-</u> | <u>75,207</u> |
| Total Cost | 1,203,001 | 19,734 | - | 1,222,735 |
| Less Accumulated Depreciation | <u>(367,897)</u> | <u>(30,247)</u> | <u>-</u> | <u>398,144</u> |
| Net Book Value | <u>\$ 835,104</u> | <u>\$ (10,513)</u> | <u>\$ -</u> | <u>\$ 824,591</u> |

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 4 - SUMMARY OF CAPITAL ASSETS - continued

Depreciation expense in the current year was charged to programs of the primary government as follows:

Governmental Activities

| | |
|------------------------|---------------|
| General Government | \$ 2,619 |
| Public Works | 2,486 |
| Recreation and Culture | 4,063 |
| Internal Service Fund | <u>17,058</u> |

Total Governmental Activities \$ 26,226

Business-Type Activities

| | |
|----------------------|------------------|
| Water & Sewer System | <u>\$ 30,247</u> |
|----------------------|------------------|

Total Business-Type Activities \$ 30,247

NOTE 5 - LONG-TERM DEBT

The following is a summary of transactions that occurred in bonds payable during the year ended February 28, 2006:

| | <i>Water Supply System</i> | | | | |
|-------------------|----------------------------|-------------------------|--------------------------|--------------------------|--------------------------|
| | <i>1975</i> | <i>1981</i> | <i>1998 Rev</i> | <i>1998 GO</i> | <i>Total</i> |
| | <u><i>Bonds</i></u> | <u><i>Bonds</i></u> | <u><i>Bonds</i></u> | <u><i>Bonds</i></u> | |
| Beginning Balance | \$ 38,000 | \$ 80,000 | \$ 216,000 | \$ 347,000 | \$ 681,000 |
| New Borrowing | - | - | - | - | - |
| Principal Paid | <u>3,000</u> | <u>5,000</u> | <u>3,000</u> | <u>5,000</u> | <u>16,000</u> |
| Ending Balance | <u><u>\$ 35,000</u></u> | <u><u>\$ 75,000</u></u> | <u><u>\$ 213,000</u></u> | <u><u>\$ 342,000</u></u> | <u><u>\$ 665,000</u></u> |

Amount required to amortize long-term debt at February 28, 2006:

| | <i>1975</i> | <i>1981</i> | <i>1998 Rev</i> | <i>1998 GO</i> | <i>Total</i> |
|----------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|
| | <u><i>Bonds</i></u> | <u><i>Bonds</i></u> | <u><i>Bonds</i></u> | <u><i>Bonds</i></u> | |
| 2007 | \$ 4,750 | \$ 8,750 | \$ 12,518 | \$ 19,300 | \$ 45,318 |
| 2008 | 5,600 | 9,500 | 12,383 | 20,098 | 47,581 |
| 2009 | 5,404 | 9,209 | 12,248 | 19,873 | 46,734 |
| 2010 | 5,200 | 8,900 | 12,113 | 19,648 | 45,861 |
| 2011 | 5,000 | 8,600 | 12,956 | 20,401 | 46,957 |
| 2012-16 | 18,002 | 45,855 | 61,278 | 99,864 | 224,999 |
| 2017-21 | - | 8,400 | 61,398 | 99,806 | 169,604 |
| 2022-26 | - | - | 62,253 | 99,681 | 161,934 |
| 2027-31 | - | - | 61,539 | 98,239 | 159,778 |
| 2032-36 | - | - | 61,864 | 98,804 | 160,668 |
| 2037-39 | - | - | 39,679 | 61,029 | 100,708 |
| | <u>43,956</u> | <u>99,214</u> | <u>410,229</u> | <u>656,743</u> | <u>1,210,142</u> |
| Less: Interest | <u>8,956</u> | <u>24,214</u> | <u>197,229</u> | <u>314,743</u> | <u>545,142</u> |
| | <u><u>\$ 35,000</u></u> | <u><u>\$ 75,000</u></u> | <u><u>\$ 213,000</u></u> | <u><u>\$ 342,000</u></u> | <u><u>\$ 665,000</u></u> |

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 5 - LONG-TERM DEBT - continued

1975 Water Supply Revenue Bonds

Interest on the bonds is payable at the annual rate of 5% payable January 1 and July 1 of each year, with principal amount due on January 1 of each year as follows:

| | |
|-----------|----------|
| 2006-2007 | \$ 3,000 |
| 2008-2015 | 4,000 |

1981 General Obligation Water Supply System Bonds

Interest is due April 1 and October 1 of each year at the rate of 5% with principal amounts due on October 1 of each year as follows:

| | |
|-----------|----------|
| 2006 | \$ 5,000 |
| 2007-2010 | 6,000 |
| 2011-2012 | 7,000 |
| 2013-2016 | 8,000 |

The Village Council called \$36,000 of outstanding 1981 bonds for redemption April 1, 1999.

1998 Water Supply Revenue Bonds

Interest on the bonds is payable at the annual rate of 4.5% payable May 1 and November 1 of each year, with principal amount due on May 1 of each year as follows:

| | |
|-----------|----------|
| 2006-2009 | \$ 3,000 |
| 2010 | 4,000 |
| 2011 | 3,000 |
| 2012-2015 | 4,000 |
| 2016 | 5,000 |
| 2017 | 4,000 |
| 2018-2020 | 5,000 |
| 2021-2024 | 6,000 |
| 2025-2027 | 7,000 |
| 2028-2030 | 8,000 |
| 2031-2032 | 9,000 |
| 2033-2035 | 10,000 |
| 2036-2037 | 11,000 |
| 2038 | 15,000 |

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 5 - LONG-TERM DEBT - continued

1998 General Obligation Water Supply System Bonds

Interest is due May 1 and November 1 of each year at the rate of 4.5% with principal amounts due on May 1 of each year as follows:

| | |
|-----------|----------|
| 2006-2009 | \$ 5,000 |
| 2010-2013 | 6,000 |
| 2014-2016 | 7,000 |
| 2017-2019 | 8,000 |
| 2020-2021 | 9,000 |
| 2022-2024 | 10,000 |
| 2025-2026 | 11,000 |
| 2027-2028 | 12,000 |
| 2029-2030 | 13,000 |
| 2031 | 14,000 |
| 2032-2033 | 15,000 |
| 2034 | 16,000 |
| 2035-2036 | 17,000 |
| 2037 | 19,000 |
| 2038 | 21,000 |

NOTE 6 – RETIREMENT PLAN

The Village has adopted a SIMPLE IRA plan. It elected to contribute a matching contribution to each eligible employee up to 3% of the employee's wages. The Village accrued a contribution of \$1,965 for the current year.

NOTE 7 – RESTRICTED RETAINED EARNINGS

Restricted Retained Earnings represents monies set aside in the Water Fund for specific purposes summarized as follows:

| | |
|---|-------------------|
| Bond and Interest Redemption/Retirement | \$ 16,353 |
| Bond Reserve | 55,299 |
| Replacement Funds | 26,110 |
| Construction | 915 |
| Taxes Receivable | <u>6,003</u> |
| | <u>\$ 104,680</u> |

NOTE 8 - LEASING ARRANGEMENTS

The Village leases the village parkland from the First Congregational Church of Benzonia. The terms of the lease, which was signed on March 17, 1996, indicate a lease period of 20 years for recreational purposes only in exchange for rent of one dollar.

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 8 - LEASING ARRANGEMENTS - continued

In February 2001, the Village entered in to a five-year lease agreement with iPCS Wireless, Inc. of Delaware. iPCS will lease space on the Village's water tower for a wireless, communication antennae. The lease calls for advance monthly payments of \$1,000 commencing March 1, 2001.

NOTE 9 - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Village carries coverage for property damage, liability, automobile, crime, and inland marine claims. Also, the Village carries worker's compensation insurance with Michigan Municipal Worker's Compensation Fund and health insurance with Blue Cross/Blue Shield of Michigan. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 – CONTINGENCIES

There is a dispute between the Village and a construction contractor over payment for services provided. The Village contends it has paid in full for services provided. The contractor has not negotiated the final payment tendered in prior years. The Village has yet to make final negotiations and resolve the conflict. The Village has not established a contingent liability due to a low likelihood of a materially unfavorable outcome.

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

A. General Fund

As discussed in Note 1, State revenue sharing is susceptible to accrual at year end. In the prior year, no accrual was made for amounts due from the State for revenue sharing at the fiscal year end. Consequently amounts due from the State in the amount of \$7,857 were not reported and fund balance was understated by the same amount. Below is the prior period adjustment.

| | |
|--|--------------------------|
| Prior Year Fund Balance | \$ 95,194 |
| Adjustment for unrecorded Due from State | <u>7,857</u> |
| Corrected Beginning Fund Balance | <u><u>\$ 103,051</u></u> |

B. Major Streets Fund

As discussed in Note 1, State revenue sharing is susceptible to accrual at year end. In the prior year, the amount due from the state for Act 51 state revenues was under reported by \$9,455 at the fiscal year end. Consequently the fund balance was understated by the same amount. Below is the prior period adjustment.

| | |
|--|-------------------------|
| Prior Year Fund Balance | \$ 77,442 |
| Adjustment for unrecorded Due from State | <u>9,455</u> |
| Corrected Beginning Fund Balance | <u><u>\$ 86,897</u></u> |

Village of Benzonia
Notes to Financial Statements
February 28, 2006

NOTE 11 – PRIOR PERIOD ADJUSTMENTS - continued

C. Local Streets Fund

As discussed in Note 1, State revenue sharing is susceptible to accrual at year end. In the prior year, the amount due from the state for Act 51 state revenues was under reported by \$6,990 at the fiscal year end. Consequently the fund balance was understated by the same amount. Below is the prior period adjustment.

| | |
|--|--------------------------|
| Prior Year Fund Balance | \$ 133,328 |
| Adjustment for unrecorded Due from State | <u>6,990</u> |
| Corrected Beginning Fund Balance | <u><u>\$ 140,318</u></u> |

REQUIRED SUPPLEMENTLE INFORMATION

Village of Benzonia
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2006

Schedule 1

| | <i>Original Budget</i> | <i>Amended Budget</i> | <i>Actual</i> | <i>Favorable (Unfavorable)</i> |
|---|----------------------------|---------------------------|-------------------|------------------------------------|
| Beginning Fund Balance | \$ 103,051 | \$ 103,051 | \$ 103,051 | \$ - |
| <i>Resources (Inflows)</i> | | | | |
| Property Taxes-Current | 67,000 | 67,000 | 70,371 | 3,371 |
| Property Taxes-Delinquent | 12,286 | 12,286 | 12,564 | 278 |
| Tax Collection Fees | 1,500 | 1,500 | 1,674 | 174 |
| Trailer Park Tax | 234 | 234 | 210 | (24) |
| Liquor License Fees | 1,600 | 1,600 | 1,942 | 342 |
| Building Permit Fees | 500 | 500 | 490 | (10) |
| State Shared Revenue | 45,000 | 45,000 | 43,208 | (1,792) |
| Refuse Collection Fees | 21,000 | 21,000 | 23,238 | 2,238 |
| Sales | - | 3 | 50 | 47 |
| Interest Earned | 800 | 800 | 1,083 | 283 |
| Refunds | - | - | 382 | 382 |
| Donations | - | - | - | - |
| Miscellaneous Income | - | - | - | - |
| Transfers from Other Funds | - | - | - | - |
| <i>Total Available for Appropriation</i> | <i>252,971</i> | <i>252,974</i> | <i>258,263</i> | <i>5,289</i> |
| <i>Charges to Appropriations (Outflows)</i> | | | | |
| General Government | | | | |
| Village Council | 12,500 | 11,222 | 11,223 | (1) |
| Elections | 500 | - | - | - |
| Clerk | 7,100 | 6,981 | 6,981 | - |
| Treasurer | 5,300 | 5,340 | 5,341 | (1) |
| Village Hall & Grounds | 25,000 | 28,822 | 28,822 | - |
| Other General Government | 46,420 | 45,439 | 45,439 | - |
| Public Works | | | | |
| Street Lights | 6,100 | 5,747 | 5,747 | - |
| Sanitation | 32,000 | 31,257 | 33,257 | (2,000) |
| Parks & Recreation | 15,000 | 15,115 | 15,115 | - |
| Other Expenditures | | | | |
| Contingencies | - | - | - | - |
| Transfers to Other Funds | - | - | - | - |
| <i>Total Charges to Appropriations</i> | <i>149,920</i> | <i>149,923</i> | <i>151,925</i> | <i>(2,002)</i> |
| Budgetary Fund Balance | <u>\$ 103,051</u> | <u>\$ 103,051</u> | <u>\$ 106,338</u> | <u>\$ 3,287</u> |

Notes to Financial Statements are an integral part of this statement

Village of Benzonia
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended February 28, 2006

Schedule 2

| | <i>Original Budget</i> | <i>Amended Budget</i> | <i>Actual</i> | <i>Favorable (Unfavorable)</i> |
|---|----------------------------|---------------------------|------------------|------------------------------------|
| Beginning Fund Balance | \$ 86,897 | \$ 86,897 | \$ 86,897 | \$ - |
| <i>Resources (Inflows)</i> | | | | |
| State Gas & Weight | 35,000 | 43,800 | 36,959 | (6,841) |
| State - Metro Act | - | - | 587 | 587 |
| Interest & Dividends Earned | 1,600 | 1,785 | 1,785 | - |
| Refunds | - | 207 | 73 | (134) |
| Miscellaneous Income | - | - | - | - |
| Transfers from Other Funds | - | 10,000 | 10,000 | - |
| <i>Total Available for Appropriation</i> | 123,497 | 142,689 | 136,301 | (6,388) |
| <i>Charges to Appropriations (Outflows)</i> | | | | |
| Routine Maintenance | 18,000 | 61,379 | 61,379 | - |
| Traffic Services | 1,000 | 786 | 786 | - |
| Winter Maintenance | 16,100 | 22,095 | 22,095 | - |
| Administration | 1,500 | 1,396 | 1,396 | - |
| Contingency | - | - | - | - |
| Transfers to Other Funds | - | - | - | - |
| <i>Total Charges to Appropriations</i> | 36,600 | 85,656 | 85,656 | - |
| Budgetary Fund Balance | <u>\$ 86,897</u> | <u>\$ 57,033</u> | <u>\$ 50,645</u> | <u>\$ (6,388)</u> |

The Notes to Financial Statements are an integral part of this statement

Village of Benzonia
Budgetary Comparison Schedule
Local Streets Fund
For the Year Ended February 28, 2006

Schedule 3

| | <i>Original Budget</i> | <i>Amended Budget</i> | <i>Actual</i> | <i>Favorable (Unfavorable)</i> |
|---|----------------------------|---------------------------|-------------------|------------------------------------|
| Beginning Fund Balance | \$ 140,318 | \$ 140,318 | \$ 140,318 | \$ - |
| <i>Resources (Inflows)</i> | | | | |
| Property Taxes - Current | 37,000 | 37,000 | 36,358 | (642) |
| Property Taxes - Delinquent | 6,347 | 6,347 | 6,491 | 144 |
| State Gas & Weight | 23,000 | 23,000 | 23,659 | 659 |
| State - Metro Act | - | - | 2,081 | 2,081 |
| Interest & Dividends Earned | 3,000 | 3,000 | 3,716 | 716 |
| Refunds | - | - | 73 | 73 |
| Miscellaneous Income | - | - | - | - |
| Transfers from Other Funds | - | - | - | - |
| <i>Total Available for Appropriation</i> | <u>209,665</u> | <u>209,665</u> | <u>212,696</u> | <u>3,031</u> |
| <i>Charges to Appropriations (Outflows)</i> | | | | |
| Routine Maintenance | 51,274 | 46,086 | 7,705 | 38,381 |
| Traffic Services | 500 | 500 | 400 | 100 |
| Winter Maintenance | 16,100 | 21,288 | 21,288 | - |
| Administration | 1,500 | 1,500 | 1,339 | 161 |
| Contingency | - | - | - | - |
| Transfers to Other Funds | - | 10,000 | 10,000 | - |
| <i>Total Charges to Appropriations</i> | <u>69,374</u> | <u>79,374</u> | <u>40,732</u> | <u>38,642</u> |
| Budgetary Fund Balance | <u>\$ 140,291</u> | <u>\$ 130,291</u> | <u>\$ 171,964</u> | <u>\$ 41,673</u> |

The Notes to Financial Statements are an integral part of this statement

OTHER INFORMATION (UNAUDITED)

Village of Benzonia

Comments and Recommendations

We have audited the financial statements of the Village of Benzonia for the year ended February 28, 2006 and have issued our report thereon dated May 23, 2006. As part of our examination, we considered the Village's internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

Cash Account Balances

We noted a check from the 1998 Water Construction Fund has been outstanding for more than 3 years. An indication was made in the past that circumstances associated with the check would be resolved. We continue to recommend the issues be resolved as soon as possible. This is a repeat comment for 3 years and should be addressed immediately.

The Clerk and Treasurer did not reconcile cash account variances between the Treasurer's reports and the general ledger at year end. Based on discussions, this appears to be the norm. It is imperative Treasurer's bank balances are reconciled with the Clerk's general ledger balances on a monthly basis. Any variances should be resolved as soon as possible.

Year-End Reports

Year-end revenue and expenditure reports did not reconcile with the general ledger for the General Fund and Water System Fund. Additionally, the General, Water System and Motor Vehicle Equipment Pool funds were not in balance. As discussed above, timely and regular reconciliation of the Treasurer's books with the Clerk's general ledger would likely have prevented these issues. Additional time was required to investigate and resolve these variances. Greater care should be taken and steps implemented to be sure this does not continue.

Computer System

We noted the Village's current computer system (Apollo software) is not fully Y2K compliant. As a result the Clerk had to enter various journal entries to enter detail and balance the funds. We noted another software package was purchased a few years ago that is fully compliant; however it has not yet been implemented.

The Village's chart of accounts does not conform to the State of Michigan uniform chart of accounts as required by statute. This is a repeat comment from prior years.

The current software does not allow for a year-to-date general ledger or included budgeted amounts on monthly revenue and expenditure listings.

The new software should be installed and implemented as soon as possible and set up to comply with the above recommendations. The staff should be sufficiently trained to operate the system.

Village of Benzonia

Comments and Recommendations

Investment Policy

An investment policy was adopted by the Village but does not contain all information required by Public Act 20 of 1943 as amended. The Policy should contain language discussing purpose, scope, objectives, safekeeping and prudence. Below is the link to the Treasury website that provides the necessary information to update your policy. A copy of the updated policy must be provided to all financial institutions used by the Village. If assistance is needed in updating your policy, please contact us. This is a repeat comment from prior years.

http://www.michigan.gov/treasury/0,1607,7-121-1751_2194-7666--,00.html

Paid Bills and Checks

We noted checks were drawn from one fund to pay liabilities of another. Subsequently funds were transferred to cover the checks. The Treasurer explained it was done because a fund ran out of checks. We recommend this practice be curtailed and new checks be obtained before supplies are depleted. This is a repeat comment.

Water System Payable to General Fund

As noted in prior years, the Water System Fund has made no payments to the General Fund for the amount due. The Village Council should adopt a written plan to repay the \$38,500 over the next 2-3 years or pass a resolution to forgive some or the entire amount due. The Council may consider earmarking part of the antennae rental for loan repayments. This is a continued repeat comment from prior years and should be resolved.

Bond Fund Surpluses

The 1981 Bond Fund has a cash balance of \$16,500 at year end. Cash needs through the end of summer tax collection are \$2,000. As recommended in prior years, the Village should retire \$12,000 of bonds early or attempt to decrease the millage rate to reduce the surplus over the next 2-3 years.

The 1975 Revenue Bond Ordinance calls for a balance of \$12,000 in the Bond Reserve Fund. The current balance is \$23,000. The council may want to consider retiring \$8,000 of bonds early.

General Fund Rental Expense

We recommend creating separate rental expense accounts in the General Fund for those expenses related only to the Motor Vehicle Fund similar to those in the Major and Local Streets Funds. This is a repeat comment from prior years.

Miscellaneous

We recommend tower rent in the Water System Fund be recorded in the rent revenue account and not combined with miscellaneous revenue.

\$500 in the Trust and Agency Fund for the Ball Park donation should be transferred to the General Fund as soon as possible.

\$559 in the Trust and Agency Fund for the Johnson Trust has remained unspent after many years. The Council should review the status and the money or transfer it to the General Fund this year.

Village of Benzonia

Comments and Recommendations

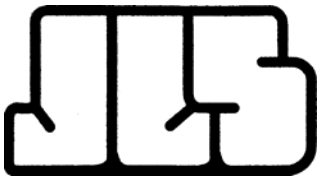
Motor Vehicle Pool Fund check 3640 in the amount of \$2,304 cleared the bank for \$304. Although the check was for a payment of a General Fund invoice, the MVE Pool Fund was reimbursed in full from the General Fund. Therefore, the \$2,000 clearing difference is payable from the MVE Pool Fund and is recorded as an accounts payable amount on the financial statements. Additionally, \$60 is due from the MVE Pool Fund to the General Fund for a reimbursement discrepancy between the two funds. Both of these issues should be resolved at the earliest convenience.

The General Fund deposited monies from the State for the Metro act. These monies should be paid or distributed to the Major Streets and Local Streets funds in the amount of \$1,791.19 and \$1,194.20 respectively. This is a repeat comment.

Closing Comments

Many of the comments above are repeat comments from the prior year or before. The Council should consider steps to ensure many of the comments do not continue to be repeated. The State is taking increased interest in repeated comments and will likely take action in the future. We will be happy to discuss any of these recommendations with you and assist you in their implementation. As a matter of course, we will forward the necessary copy of this audit report to the State Treasury Department. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise on these financial statements or the conduct of our audit, please call upon us.

FEDERAL FUNDS SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA
David Skibowski, Jr., CPA
Christopher H. Cornell, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Benzonia
Benzonia, MI 49616

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Village of Benzonia, Benzie County, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village of Benzonia's basic financial statements and have issued our report thereon dated May 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Village of Benzonia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of the Village of Benzonia in a separate letter as part of the audited financial statements.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May 23, 2006